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Strategic Sourcing with Small Business in Mind

Lora Gross

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Strategic Sourcing with Small Business in Mind

Lora Gross
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Agenda

- Strategic Sourcing Memorandum and Opportunities
- Small Business Concerns
- Single Award Sourcing
- Better Ways for Small Business Inclusion





Strategic Sourcing Memorandum

- ☐ Save Money, Improve Performance
- ☐ Consolidate Requirements
- ☐ Leverage Buying Power
- ☐ Become a "Best Customer"





Strategic Sourcing Memorandum

■ Definition

- “Collaborative and structured process of critically analyzing an organization’s spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently.”
- Meant to “help agencies optimize performance, minimize price increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.”

Reference: Johnson III, C. (2005). Implementing Strategic Sourcing. Memorandum for the Chief Acquisition Officers, Chief Financial Officers, and Chief Information Officers. Washington, DC: Executive Office of the President, Office of Management and Budget.





Strategic Sourcing

■ Air Force Strategic Sourcing Example

❖ Information Technology

- ✓ Reduced 1,000 IT contracts to seven;
- ✓ Dollar savings of \$65.1 million;
- ✓ Cost avoidance of more than \$155 million between FY2004 and 2008;
- ✓ Decreased workload of contracting departments; and
- ✓ Increased spending toward small businesses.





Importance of Small Businesses

■ Small Businesses Statistics

- ❖ Made up for little more than half of the US private sector workforce.
- ❖ Paid 44% of the total US private payroll.
- ❖ Generated 64% of new jobs.
- ❖ Out-produced large businesses in innovation.
 - Applied for patents 13 times more per employee than large firms.





Strategic Sourcing vs. Small Businesses

- Strategic Sourcing generally involves procurements
 - ❖ Large in scope or volume;
 - ❖ Geographically dispersed customers; and
 - ❖ High in dollar value.





Consolidation, not Bundling

Consolidation – taking on previously performed actions under two or more separate contracts, and combines them into one contract.

- Reduces the number of available contract opportunities
- Narrows the potential pool of vendors
- Benefits must be documented, justified and approved prior to being implemented





Consolidation, not Bundling

Bundling – (FAR 2.101) consolidates “two or more procurement requirements for goods or services previously provided or performed under separate, small contracts into a solicitation of offers for a single contract that is unlikely to be suitable for award to a small business concern due to:

1. The diversity, size or specialized nature of the elements of the performance specified;
2. The aggregate dollar value of the anticipated award;
3. The geographical dispersion of the contract performance sites; or
4. Any combination of these factors”





Small Business Concerns Regarding Bundling

During FY 1992 through 2001

- For every 100 bundled contracts, 60 individual contracts are no longer available to small businesses.
- For every \$100 awarded on a bundled contract, there is a \$12 decrease to small businesses (Murphy, 2000).

While bundled actions decreased between FY 2005 and 2006 by 6%, the total dollars under these actions increased by almost 42% (NASB, 2008).





Strategic Sourcing Impact on Small Business

- *Contract Management* – An end goal of Strategic Sourcing is to “limit the number of vendors and ...[offer] exclusivity of contract as a means of aggregating volume in return for lower prices.”





Strategic Sourcing Impact on Small Business

- *Washington Report* – “Strategic Sourcing is nothing more than an effort to limit the number of sellers of goods and services to a very select few, none of which, if present trends continue, will be small, independent office products dealers...simply a more severe version of contract bundling”





Single Award Sourcing

- Allowable under FAR
 - Justified
 - Congressional notification within 30 days of determination
 - FAR 16.504(c)(1)(ii)(D) provides exceptions

- 2008 statute for awards exceeding \$100 million
 - Requires multiple awards
 - Encourages competition at the task order (TO) and delivery order (DO) level





Single Award Sourcing

Challenges for Single Awards

- ❖ Do not permit competition at the TO/DO level
- ❖ No incentives for further price reductions
- ❖ Not in alignment with political agendas for competition
- ❖ Office of Management Budget oversight for non-competitive awards
- ❖ Limits potential for innovative solutions for agencies





Better Way for Small Business Inclusion

- Small Business Contracting Participation
 - FY 2007 to 2008
 - Increase of 12% in prime contract awards
 - Only 8 of 15 Cabinet-level agencies met the Government-wide goal of 23% of total contract dollars awarded to small businesses





Better Way for Small Business Inclusion

- Incorporate agency's small business subcontracting goals into the contract.
- Leverage past performance as an evaluation factor, relative to the prime contractor's ability to comply with its proposed small business subcontracting goals on prior contracts similar in size, scope and complexity.
- Use performance-based contracting and performance incentives.
- Leverage contract option clauses contingent on compliance with small business subcontracting goals.
- 100% set-aside GWACs





Better Way for Small Business Inclusion

Incorporate agency's small business
subcontracting goals into the contract.

- FAR 19.702, purchases > SAT must agree to include small businesses to the maximum extent practicable.
- FAR 52.219-9 instructs contractors to submit contracting plans that clearly define the percentage and total dollars set aside for a small business.





Better Way for Small Business Inclusion

Incorporate agency's small business
subcontracting goals into the contract.

Agency Level Regulations

- VA's Final Rule regarding Veteran's First Program instructing evaluation credit for SDVOSB and VOSB participation.
- VAAR 819.704 – subcontracting goals must be commensurate with the annual VA SDVOSB/VOSB prime contracting goal for the total value of planned subcontracts.
- DTAR provides bonus score when proposals include a mentor-protégé arrangement with a small business.





Better Way for Small Business Inclusion

Leverage past performance as an evaluation factor, relative to the prime contractor's ability to comply with its proposed small business subcontracting goals on prior contracts similar in size, scope and complexity.

- Request and evaluate certified letters from previous contracts as part of their past performance evaluation.
- More weight on this factor = greater compliance
- Agency requirement of certification for an annual deliverable.





Better Way for Small Business Inclusion

Use performance-based contracting
and performance incentives.

Subcontracting accountability by withholding a small percentage (~1%) of the total subcontracting dollars (vs. total contract) from the contractor until they provide evidence of their subcontracting efforts.





Better Way for Small Business Inclusion

Leverage contract option clauses contingent on compliance with small business subcontracting goals.

Withhold the exercise of options until the contractor submits certified evidence that they met their subcontracting goals for the preceding period of performance, in accordance with their proposals.





Better Way for Small Business Inclusion

100% Set-Aside GWACs

- ✓ Competitively Awarded
 - ✓ Multiple Awards
 - ✓ Interagency Use





Conclusion

Obama administration and OMB acquisition agendas:

- Encourage reductions in overall contract spending;
- Increased competition;
- Increased Small Business opportunities
- Procure more efficiently and effectively

Effective Strategic Sourcing can meet all of these requirements and leverage buying power, encouraging economic support to Small Businesses.





Questions?

